

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

EXPERIMENTAL "RIDE-ALONG"
CLASSIFICATION CHANGE FOR PERIODICALS, 1999

Docket No. MC2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SCHWARTZ TO INTERROGATORIES OF
COX TARGET MEDIA, INC. AND COX CONSUMER SAMPLING
(CC/USPS-T2-1-11)

The United States Postal Service hereby provides the responses of witness Schwartz to the following interrogatories of Cox Target Media, Inc. and Cox Consumer Sampling: CC/USPS-T2-1-11 filed on November 2, 1999.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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November 12, 1999

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

CC/USPS-T2-1.

At page 3, lines 17-18 of your testimony, you state that 'We mailed approximately 3.339 million Standard A advertising units with our 1998 periodicals issues.

- a. In developing this total of 3.339 million Standard A advertising units please state
 - (i) the number of different publications that were involved, and
 - (ii) the number of separate issues of each publication that carried Standard A advertising units
- b. What was the total number of different inserts that were carried in Conde Nast publications during 1998?
- c. For those periodicals issues that carried a Standard A advertising insert, what was the average volume of inserts per issue?
- d. During 1998, on how many occasions did newsstand copies of Conde Nast publications carry inserts that were not contained in any mailed copies?

RESPONSE:

- a. In developing the total of 3.339 million Standard A advertising units mailed with 1998 issues of Conde Nast periodicals,
 - (i) a total of seven different publications were used; and
 - (ii) a total of ten issues of these seven different publications were used (three issues of one publications, two issues of another publication, and one issue each of the remaining five publications contained Standard A advertising units).
- b. This answer calls for material that is confidential and proprietary business information.

RESPONSE OF UNITED STATES POSTAL-SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

- c. In nine of the ten issues identified in my answer to Interrogatory CC/ USPS-T2-1(a), above, the inserts were contained in part runs.
- d. As a rule, Conde Nast rarely carries inserts in newsstand copies of its publications that are not also carried in mailed copies.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

CC/USPS-T2-2.

At p.4 of your testimony you state that the proposed flat rate of \$0.10 for ride-along inserts "would automatically double volumes from current advertisers to approximately 6.68 million units." Is the estimate of 6.68 million units the result of doubling the 1998 volume of 3.339 million? Please explain any answer that is not an unqualified affirmative.

RESPONSE:

Yes. The estimate of 6.68 million units stated on page four of my testimony is a result of my doubling of the 1998 volume of 3.339 million.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

CC/USPS-T2-3.

At p 4, line 3, you further state that "This would amount to over 13 million pieces."

- a. Is 13 million intended to represent an approximate doubling of 6.68 million?
- b. Please explain the difference between the terms "units" (as in "6.68 million units") and "pieces" (as in "13 million pieces") as you use these two terms in your testimony.

RESPONSE:

- a. Yes. Thirteen million is intended to represent an approximate doubling of 6.68 million.
- b. The terms "units" and "pieces" are used synonymously and interchangeably in my testimony.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

CC/USPS-T2-4.

At p 4 you continue with the statement that "We believe we would almost double this volume again..."

- a Does this statement mean that you expect the 13 million volume to grow to approximately 26 million pieces, which would be about 8 times the 1998 volume of 3.339 million pieces?
- b. If your answer to preceding part a is affirmative, please reconcile this projected 8-fold increase with your statement at page 3, lines 20-21, that "the proposed experimental rates could produce approximately four times the actual volume of Standard A pieces Conde Nast generated in 1998."
- c. If your answer to part a is negative, please explain what you mean when you say that "We believe we would almost double this volume again. In particular, to what volume are you referring with the phrase "this volume"?

RESPONSE:

These answers refer to my estimate, reported at page four of my testimony, that the proposed experimental "ride-along" rate could result in a quadrupling of the actual volume of Standard A pieces Conde Nast generated in 1998.

- a. No. My statement does *not* mean that Conde Nast's volume would grow to approximately 26 million pieces. As stated on page 3 of my testimony, "[Conde Nast] mailed approximately 3.339 million Standard A advertising units with our 1998 periodicals issues. Though no one can tell for sure what advertisers may or may not do in the future, my experience indicates that the proposed experimental rates would produce approximately four times the actual volume of Standard A pieces Conde Nast generated in 1998."

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

Please see the revision of page 4 filed on November 1, 1999, and explained my answer to Interrogatory OCA/USPS-T2-6(a).

- b. I did not testify that there would be an "8-fold" increase.
- c. Please see my answer to Interrogatory CC/USPS-T2-4(a). The volume referred to is the volume of Standard A advertising units mailed with Conde Nast's periodicals.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

CC/USPS-T2-5.

Please refer to your testimony at page 1, lines 12-13, where you state that "Starting at some time in the mid-1990s we became inundated with requests tbr these types of innovative advertisements."

- a. Please define the term "inundated" as you use it here.
- b. With reference to your answer to part b of preceding interrogatory CC/USPS-T2-1, please attempt to quantify the term "inundated" in your testimony. That is, with reference to the total number of different inserts carried during 1998, what level of requests (e.g., doubling, tripling, quadrupling, etc) would represent becoming inundated?

RESPONSE:

- a. I used the term "inundated" in the dictionary sense, as, for example, a synonym for "flooded."
- b. As stated in my testimony, "[t]hough no one can tell for sure what advertisers may or may not do l the future, my experience indicates that the proposed experimental rates could produce approximately four times the actual volume of Standard A pieces Conde Nast generated in 1998." The experience I spoke of is based on requests made to Conde Nast by advertisers for inclusion in Conde Nast periodicals of some of these often innovative advertisements. By the mid-1990s, I was receiving approximately 200 requests per year from advertisers to carry these types of advertisements. I spent huge amounts of time calculating the rates — including postage — for these advertisements, and in nearly every case, the advertisers then declined to place the advertisement, as a result of the expense of the postage.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

CC/USPS-T2-6.

Your testimony states (page 1) that "[t]he Standard A postage premium over the normal Periodicals postage costs is passed along on a dollar-for-dollar basis to the advertiser."

- a. Suppose a single issue of one of your publications carried two separate inserts. Assuming that the experiment in this docket is approved as proposed, is it your understanding that one insert would pay the ride-along rate of 10 cents, and the other insert would pay the applicable Standard A rate? Please explain fully any answer that is not an unqualified affirmative.
- b. With respect to each of the two inserts, would you continue to pass along the postage premium over the normal Periodicals postage on a dollar-for-dollar basis'?
- c. Please explain how you would determine which insert would pay the 10 cent ride-along rate and which insert would pay the Standard A rate.

RESPONSE:

- a. No Conde Nast publication has ever carried two separate inserts in a single edition. In fact, advertisers have only rarely asked us to carry even one such advertisement, because of the expense of the postage. However, if a single edition of a publication were to carry two separate inserts, Conde Nast would still only pass along the actual cost of the postage expended. In some cases, of course, as, for example, where the two inserts together weighed less than 3.3 ounces, the postage would be calculated using *current* rates (rather than the "ride-along" rate) because this would result in less postage expense.
- b. Yes. This is standard practice in the Periodicals industry.
- c. As stated in my answer to Interrogatory CC/USPS-T2-6(a), above, no Conde Nast periodical has ever carried two inserts in a single edition. Additionally (also

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

as stated in my answer to Interrogatory CC/USPS-T2-6(a), above), if two inserts were carried in a single edition, Conde Nast would calculate the postage each advertiser would have to pay using the method that resulted in the least expense for each advertiser, so the premise of this question (that one advertiser "would pay the 10 cent ride-along rate" and that the other "would pay the Standard A rate") is not accurate.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

CC/USPS-T2-7.

Your testimony at page 2, lines 8-13, cites the following as examples of potential Ride-Along candidates for inclusion in periodicals:

- samples of an actual product (i.e., swatches of fabric, pacquettes of actual skin care cream or cosmetics);
 - advertisements made up of non-printed sheets (i.e., fabric or plastic);
 - battery-operated lights;
 - advertisements which include a tone activator, such as a music chip found in a greeting card; and
 - a computer disk or CD-ROM.
- a. Is it your contention that all of the potential Ride-Along candidates cited in your testimony are of the type that advertisers would not send directly to consumers as a solo mailing via any other class of mail, such as Standard A or First-Class Mail? Please explain your answer fully, and if your answer is affirmative, include all reasons why advertisers would not use another class of mail.
- b. Is it your contention that all of the potential Ride-Along candidates cited in your testimony are of the type that advertisers would not send directly to consumers as part of a co-op mailing via any other class of mail, such as Standard A or First-Class Mail? Please explain your answer fully, and if your answer is affirmative, include all reasons why advertisers would not use another class of mail.
- c. Are you aware of any solo or co-op Standard A mailings that included pacquettes of actual skin care cream or cosmetics? Please explain all reasons on which you rely for your conclusions that (i) such items are not candidates for Standard A Mail, and (ii) their inclusion as Ride-Along inserts would result in little or no volume or revenue diversion if this experimental rate is approved.
- d. Suppose that a computer disk or CD-ROM were bound into a periodical as a Ride-Along insert. How would that affect the ability of the periodical to be folded and inserted into an apartment-type mailbox? In your answer, please address the likelihood that it would require more time and effort on the part of the carrier.

RESPONSE:

- a. It is not my contention that these items are categorically "of a type that advertisers would not send directly as a solo mailing via any other class of mail," and I did not

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

so testify. Instead, the items on the list were provided as *examples* of the kinds of inserts that would likely be requested (or that have been requested -- and then not ordered, solely because of the expense of postage) to be mailed as ride-alongs with specific editions of Conde Nast periodicals. My experience demonstrates to me that advertisers are *much more likely* to mail certain types of advertisements within the editorial framework of a magazine than as part of a mass mailing for several reasons, including, for example: (1) the image of the magazine (the advertisements will appear in an editorially advantageous context); (2) the demographics of the readership (a magazine's readers are a self-selected group interested in the topic or topics covered in the magazine, and thus naturally inclined to be interested in products related to those topics); (3) the natural fit of some advertisements in some publications (high-end cosmetic lines in *VOGUE*, for example), which advertisers do not just decide *to mail*, but specifically decide to *place* in a certain publication (these are the types of advertisements that advertisers have wanted to place in Conde Nast publications for years, but have not placed *solely* as a result of the cost of the excess postage); (4) the fact that some inserts are (and will be) engrained in a magazine advertisement and therefore simply could not be mailed alone.

- b. Please see my answer to Interrogatory CC/USPS-T2-7(a), above.
- c. I am not personally aware that some "solo or co-op Standard A mailings . . . included *pacquettes* of actual skin care cream or cosmetics," but it would not surprise me to learn that this was true. I did not testify that such items would

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

categorically not be "candidates for Standard A Mail." What I testified, instead, was that certain kinds of expensive, innovative advertisements would not be mailed as Standard A Mail but, for all the reasons stated in my answer to Interrogatory CC/USPS-T2-7(a), above, would either be mailed as inserts to periodicals or *not at all*. As a result, I do believe that the proposed experimental "ride-along" rate would result in "little or no volume or revenue diversion." The vast majority –if not all –of the advertisements the "ride-along" rate will attract will only come into existence with the "ride-along" rate. Absent that rate, my experience tells me, they will not be placed anywhere.

- d. It was to deal with the types of practical problems suggested in this question that the magazine industry agreed to a host of specifications for any inserts to be carried at the "ride-along" rate. For example, the industry agreed with the United States Postal Service that the inclusion of a "ride-along" insert could not affect machinability. It is my understanding that the Postal Service believes that any practical difficulties created by the inclusion of inserts will not – as a result of the specifications -- be significant, and that all will be more than offset monetarily by the increased revenue the proposed experimental "ride-along" rate is likely to generate.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

CC/USPS-T2-8.

Your testimony at page 4 (lines 16-19) states that "The current Standard A material which is either on-sorted within a mailing wrapper or bound into our periodicals is not of the type that advertisers would send directly to consumers via any other class of mail, i.e., Standard Mail A or First-Class Mail."

- a. With respect to the current Standard A material which is either on-sorted within a mailing wrapper or bound into your periodicals, in what respects are those materials similar to or different from the examples of potential candidates cited in your testimony and discussed in your response to interrogatory CC/USPS-T2-7?
- b. Please provide examples of current on-sorts or inserts that differ from the examples of potential candidates cited in your testimony and discussed in your response to interrogatory CC/USPS-T2-7, and please explain fully why, in your opinion, the examples of such different on-sorts and inserts also are not candidates for either (i) a solo Standard A mailing or (ii) inclusion in a co-op Standard A mailing.

RESPONSE:

- a. Please see my answer to Interrogatory CC/USPS-T2-7, above.

I am unaware of any "current on-sorts or inserts that differ from the examples of potential candidates cited in [my] testimony and discussed in [my] response to interrogatory CC/USPS-T2-7." As stated in my answer to Interrogatory CC/USPS-T2-1, out of all the editions of all of Conde Nast's 17 periodicals published in 1998, only ten inserts appeared -- a total of less than 3.4 million advertising units combined. These appeared in Conde Nast periodicals because the advertisers wanted to place them in Conde Nast periodicals, despite the expense, and presumably did not want to mail them as Standard A pieces either solo or as part of a group. The current on-sorts or inserts appearing in Conde Nast periodicals and the examples of potential candidates for future on-sorts or inserts in Conde Nast periodicals are not "candidates for either (I) a solo

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

Standard A mailing or (ii) inclusion in a co-op Standard A mailing" because that is *not*
how the advertisers want to distribute them.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

CC/USPS-T2-9

- a. Are subscriber lists of Conde Nast periodicals available for rent to Standard A mailers?
- b. Suppose that this experimental rate is approved, and the volume of ride-along inserts in Conde Nast periodicals expands four-fold (or eight-fold) as you project. Will the ability to place inserts directly into your periodicals reduce the income from list rental? Please explain the basis for your answer.

RESPONSE:

- a. I believe that subscriber lists of Conde Nast periodicals are available for rent to Standard A mailers, but this is outside of my jurisdiction at Conde Nast.
- b. Because the "ride-along" rate would apply to only one insert or on-sert per edition of a periodical, and because the types of advertisers to whom the "ride-along" rate would appeal are not the same as the types of advertisers that to whom solo or co-op Standard A mail would appeal, I believe that approval of the proposed experimental "ride-along" rate would not greatly affect the marketability of Conde Nast's subscriber lists one way or another.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

CC/USPS-T2-10.

With respect to the Magazine Publishers of America (MPA) survey discussed at page 4, lines 9-14, of your testimony, please:

- a. List the names and addresses of the companies contacted, including the dates of the contacts;
- b. State the survey questions (or produce a copy of the survey form, if any);
- c. State the name and title of the persons responding for each company;
- d. State the survey responses (or produce a copy of the response forms, if any); and
- e. State the substance of any information communicated to the survey respondents in connection with the survey, and produce copies of any documents containing such information as well as any documents provided to the survey respondents.

RESPONSE:

- a. Members of MPA's Postal Committee were contacted for the survey discussed at page 4, lines 9-14 of my original testimony. Thirty-six members of MPA were contacted. Their identities — like the identities of all members of all MPA Committees — are confidential.
- b. The survey asked members to quantify the number of Standard A advertising units mailed with their 1998 periodicals issues, to estimate (based on their experience with advertisers) how many such units would be mailed if the proposed experimental "ride-along" rate were approved, and to state whether they were in CPP. Fifteen of the thirty-six companies responded.
- c. The names and titles of the persons responding to the survey for the fifteen companies that responded are confidential.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

- d. A copy of a table of the responses to the survey is attached.
- e. The substance of the "information communicated to the survey respondents in connection with the survey" was the questions asked of them. (See Answer to Interrogatory CC/USPS-T2-10(a), above.) No documents responsive to this request exist.

Company	Code	Current ride-along	Projected ride-along	In CPP?
	A	2,000,000	10,000,000	yes
	B	0	0	no
	C	100,000	200,000	yes
	D	3,339,000	13,356,000	yes
	E	0	480,000	yes
	F	1,000,000	8,000,000	yes
	G	500,000	800,000	yes
	H	150,000	10,000,000	yes
	I	7,000,000	22,000,000	yes
	J	0	0	no
	K	100,000	300,000	yes
	L	0	0	no
	M	0	0	no
	N	0	25,000,000	yes
	O	0	1,400,000	no
		14,189,000	91,336,000	

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

CC/USPS-T2-11

At page 4 of witness Taufique's testimony, he states that "neither the Periodicals industry nor the Postal Service wishes to provide an incentive to the customers to clutter up magazines with numerous advertising pieces or other ineligible enclosures or attachments."

- a. Do you agree with the above-quoted sentence? If not, state all bases for your disagreement.
- b. Please state all reasons why the periodicals industry does not wish to provide an incentive to customers to clutter up magazines with numerous advertising pieces or other ineligible enclosures or attachments.
- c. In your opinion, would it "clutter up magazines" in a negative way if a single issue of a magazine included, for example, a cosmetic product as well as a CD-ROM? Please explain the basis for your answer.
- d. Please produce copies of all documents written and/or transmitted between January 1, 1998 and the present, including but not limited to correspondence with the Postal Service, mentioning, reflecting, or commenting on the concern recited at page 4 of witness Taufique's testimony (i.e., not providing an incentive to customers to clutter up magazines with advertising pieces, and the like).

RESPONSE:

- a. I agree with the statement made by witness Taufique.
- b. The periodicals industry has a number of reasons not to want to "provide an incentive to customers to clutter up magazines with numerous advertising pieces or other ineligible enclosures or attachments," including, importantly, the industry's desire to have its editions remain editorial- and content-driven, and not confused with catalogues.
- c. As stated in my answer to Interrogatory CC/USPS-T2-6, "no Conde Nast publication has ever carried two separate inserts in a single edition." However, in my opinion, the inclusion of a cosmetic product and a CD-ROM in a single

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHWARTZ
TO INTERROGATORIES OF COX TARGET MEDIA, INC.,
AND COX CONSUMER SAMPLING

issue of a magazine would not have a negative impact on editorial content, would not distract readers from editorial content, would not reflect negatively on the editorial content, and would not lead readers to confuse the single issue with an edition of a catalogue. For all these reasons, I do not believe that the inclusion of both a cosmetic product insert and a CD-ROM in a single issue of a magazine would "clutter up magazines."

- d. Only one document responsive to this request exists. It is an undated copy of the "Joint Proposal of the American Business Press and the Magazine Publishers of America" for a "Proposed Experimental Rate for Standard A Matter Included with Periodical Rate Mailings." This proposal was forwarded to the United States Postal Service. To the best of my knowledge and recollection, this proposal was created sometime in late 1997 or early 1998, and thus arguably falls within the time limits of the question.

PROPOSED EXPERIMENTAL RATE FOR STANDARD A MATTER INCLUDED WITH PERIODICAL RATE MAILINGS

A Joint Proposal of the American Business Press and the Magazine Publishers of America

Background

- This concept was first discussed by the joint USPS/Industry Periodicals Advisory Group as a means to increase Periodicals revenue.
- MPA established a workgroup to examine the concept and prepare an initial proposal. The workgroup concluded that the concept had merit, recommended basic parameters for the "ride-along" rate, suggested implementing the concept initially as an experimental service, and agreed to approach ABP to seek industry-wide consensus.
- MPA and ABP held a series of meetings to discuss the concept, work through concerns, and fine-tune rate design components. The following ride-along rate elements represent a consensus proposal of the two industry associations.

Limits of the Experiment

- To maintain the distinction between periodicals and Standard A, we recommend a limit of 1 ride-along piece per copy. Additional Standard A matter would be subject to current rates, rules and regulations.
- To retain the balance between the host periodical and the ride-along piece, we would accept limiting the ride-along piece to not exceed the weight of the host periodical and in any event, it cannot exceed the maximum Standard A minimum per piece weight.

Rate Design

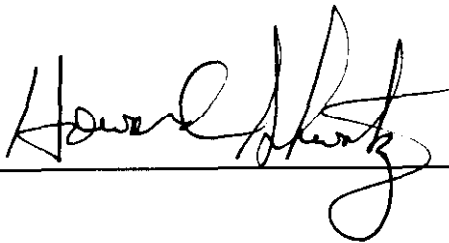
- To simplify administration and to broaden appeal to advertisers and to publishers, the associations recommend a flat rate of 10 cents for each qualifying ride-along piece.

Additional Considerations

- Implementation of the experimental ride-along rate should not impact the eligibility of current permissible content for periodicals rates.
- If necessary, USPS should provide implementation guidelines to ensure that inclusion of ride-along pieces in periodicals does not unduly increase mail processing costs.
- It is not the intent of this proposal to divert volume from Standard A mail. At the conclusion of the experiment the rate should become permanent if such diversion does not occur and if other aspects of the experiment prove satisfactory.

DECLARATION

I, Howard Schwartz, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



Dated: 11/12/99

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "Scott L. Reiter", is written over a horizontal line.

Scott L. Reiter

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November 12, 1999